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SUBJECT: IRAQI FINANCIAL DEBT TO ITALY

SUMMARY

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1. (SBU) DESPITE ITALIAN MEDIA CLAIMS THAT IRAQI DEBT TO ITALY IS E7 BILLION, GOI OFFICIALS HAVE TOLD US THAT THE AMOUNT IS CLOSER TO E1.3 BILLION. MOST OF THE DEBT RELATES TO A MID-1980S IRAQI ORDER OF FOUR FRIGATES, WHICH WERE NEVER DELIVERED BECAUSE OF A SUBSEQUENT UN EMBARGO. THE GOI ASSUMED THE COST OF THESE FRIGATES. WHILE NO OFFICIAL DECISION HAS BEEN MADE, GOI OFFICIALS INDICATE THAT THIS DEBT WILL LIKELY BE FORGIVEN WHEN A NEW IRAQI GOVERNMENT IS IN PLACE. END SUMMARY.

2. (SBU) IN A MARCH 20TH ARTICLE, THE ITALIAN FINANCIAL DAILY MF CLAIMED THAT IRAQI DEBT TO ITALY TOTALED E7 BILLION, A CLAIM AND FIGURE THAT WERE PICKED UP BY MOST MAJOR ITALIAN NEWSPAPERS. THE MF JOURNALIST APPARENTLY LUMPED TOGETHER TWO OUTSTANDING DEBTS ONE RELATING TO THE ORDER OF FOUR WARSHIPS, THE SECOND TO THE VALUE OF A FUND ILLEGALLY GRANTED TO IRAQ BY A MAJOR ITALIAN BANK, BANCA NAZIONALE DEL LAVORO (BNL). REGARDING THE LATTER, THE ATLANTA OFFICE OF BNL ISSUED A FUND VALUED AT E2.6 BILLION FOR THE FINANCING OF ARMS PURCHASES TO IRAQ IN 1986. U.S. COURTS RULED THE FUND ISSUANCE WAS ILLEGAL. ITALY ALSO RULED THAT THE CREDIT WAS ILLEGAL SINCE AT THAT TIME, ITALY HAD PLACED AN EMBARGO ON IRAQ UNTIL OUTSTANDING DEBT FOR THE FOUR FRIGATES WAS PAID. IRAQ NEVER RE-PAID THE FUND. BNL WROTE OFF THIS DEBT MANY YEARS AGO (1993-1995).

3. (SBU) THE MORE SIGNIFICANT SHARE OF IRAQ DEBT RELATES TO FOUR LUPO FRIGATES (SMALL WARSHIPS)  
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ORDERED BY IRAQ IN 1981 BUT NEVER DELIVERED BECAUSE OF IRAN/IRAQ WAR FIRST AND THE UN EMBARGO LATER. THE FRIGATES REACHED ALEXANDRIA, EGYPT AND TUNIS, BUT NEVER REACHED THE IRAQI PORT OF UM QASR. IRAQ REFUSED TO PAY FOR THE FRIGATES. AS A RESULT OF THIS DISPUTE, FINCANTIERI (THE GOI-CONTROLLED SHIPYARD COMPANY THAT BUILT THE FRIGATES) SUFFERED A NET LOSS OF TWO TRILLION LIRE (APPROXIMATELY USD 1.5 BILLION). THE COST OF MAINTAINING THE FOUR FRIGATES IN THE ITALIAN PORT OF LA SPEZIA FROM 1986-1991 REACHED 660 MILLION LIRE (APPROXIMATELY USD 500,000), WHICH WAS BORNE BY THE GOI. IN 1991, THE SIX WARSHIPS WERE SOLD TO THE ITALIAN NAVY, WHICH MEANT AN ADDITIONAL BUDGETARY BURDEN.

4. (SBU) THE IRAQ GOVERNMENT ALSO WAS SUPPOSED TO PAY ONE TRILLION LIRE (APPROX. USD 770 MILL) TO COMPANIES (SUCH AS OTOMELARA, AGUSTA, BRED A MECCANICA, AND IDICIMA) THAT PROVIDED WEAPONS AND SOPHISTICATED TELECOM EQUIPMENT ON THE FRIGATES. THE OVERALL LOSS WOULD BE ESTIMATED AT ABOUT 5 TRILLION IN 1986 LIRE (APPROXIMATELY USD 3.3 BILLION) OR ABOUT E4.5 BILLION IN TODAY'S TERMS. THIS COMBINED WITH THE E2.6 BILLION BNL CREDIT TO IRAQ WOULD CORRESPOND TO AN OVERALL DEBT POSITION OF E7 BILLION, THE FIGURE CLAIMED BY THE FINANCIAL PAPER MF.

5. (SBU) GOI OFFICIALS ARGUE THAT THE E7 BILLION FIGURE IS ERRONEOUS. CARLO GUARINONI, HEAD OF STUDIES AND ECONOMIC RESEARCH OF SACE (ITALIAN FOREIGN TRADE INSURANCE SERVICES AGENCY) TOLD US THAT IRAQ'S OFFICIAL IRAQI DEBT POSITION TO ITALY IS 1.4 BILLION EURO (USD 1.35 BILLION DOLLARS). FILIPPO GIAN SANTE, DIRECTOR OF INTERNATIONAL DEBT AT THE FINANCE MINISTRY CORROBORATED THIS OFFICIAL FIGURE. GUARINONI TOLD US THAT ITALY, AS A SIGN OF GOOD WILL WITH A NEW IRAQI ADMINISTRATION, WOULD LIKELY FORGIVE THE OUTSTANDING DEBT RELATED TO THE FRIGATES.

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